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Combating Procurement Fraud:
An Initiative to Increase Prevention and Prosecution of
Fraud in the Federal Procurement Process

OVERVIEW

At this critical time when our national defense and homeland security resources are most precious, criminals who cheat the government must be identified, stopped and punished. The sheer size and complexity of procurement operations may embolden some criminals. It is imperative that we take action to prevent, deter, and prosecute those unscrupulous government contractors whose theft of critically needed resources threaten America's safety and defense. We must ensure that our fighting men and women are getting well-made weapons and equipment and that the taxpayers are getting their money's worth when the government buys goods and services.

Eastern Virginia is the home to an ever increasing number of government contractors providing highly beneficial goods and services to the Federal Government. In addition, many of the government's national security assets and contracting agencies are located in Eastern Virginia. The law enforcement community in this region must do all it can to strengthen the integrity of the procurement system.

United States Attorney Paul J. McNulty is spearheading a procurement fraud initiative to promote the early detection and prevention of procurement fraud associated with the increase in contracting activity for national security and other government programs. In partnership with several federal law enforcement agencies, the United States Attorney's Office is forming the Procurement Fraud Working Group. This working group will concentrate on federal law enforcement efforts to combat procurement fraud. It will promote collaboration and exchange of ideas to increase effectiveness in this vital area of law enforcement.

BACKGROUND

The Challenge

Part of the cost of keeping America safe from terror and combating threats at home and abroad is increased procurement. Many of the government's contracts are negotiated, signed or processed in Eastern Virginia because it is home to large procurement offices, which includes, among others, the Pentagon and Norfolk Naval Base, the largest navy base in the world. Moreover, many defense contractors are located in Eastern Virginia or have offices here. In addition to increasing DoD contracts, these contractors are expanding operations to acquire and service contracts from the State Department, DHS, and other federal agencies. For example, the President and Chief Operating Officer of one of DHS's top ten contractors recently announced the company's intent to grow 15 per cent each year. With increased procurement, including a rise in the outsourcing of particular services, there is also the potential for an increase in procurement fraud, which includes product substitution, defective pricing or other irregularities in the pricing and formation of contracts, misuse of classified or other sensitive information, labor mischarging, accounting fraud, fraud involving foreign military sales and ethical and conflict of interest violations. This puts the United States Attorney's Office, as chief law enforcement agency for this district, in a unique position to act.

The EDVA Track Record

The Eastern District of Virginia has a proven track record of fighting contract fraud. Dating back almost 20 years, our office played a pivotal role in "Operation Ill Wind," which uncovered a major procurement fraud scandal. "Operation Ill Wind" resulted in about 70 convictions, including the convictions of half a dozen major defense contractors, some smaller defense contractors, employees, consultants, and approximately a dozen government officials. The highest ranking government officials were an Assistant Secretary of the Navy, a Deputy Assistant Secretary of the Navy, and a Deputy Assistant Secretary of the Air Force. The defendants paid significant fines, restitution, and civil settlements.

Since "Operation Ill Wind," EDVA has continued to prosecute major DOD fraud and corruption cases, including:

- Darlene Druyun, a senior executive with DoD who obtained jobs with Boeing for her daughter, her daughter's fiancé, and herself while negotiating a contract with Boeing on behalf of the Air Force. Druyun gave Boeing a "parting gift" by agreeing to a higher price than she believed appropriate for Boeing's tanker aircraft. Boeing's chief financial officer, Michael Sears, also pleaded guilty for his role in this scandal.
- Robert Lee Neal, Jr., and Francis Delano Jones, Jr., were convicted of extortion, bribery, money laundering, and other crimes in 2003. Neal and Jones were DOD officials who used their official positions to obtain bribes, extortion payments, and gratuities.

- Kevin Hawkins, who accepted over \$47,000 in bribes for his participation in a scheme to use DOD “IMPAC” credit cards to make over \$200,000 in fictitious purchases for the Pentagon.
- Bobby Gilchrist, who received over \$200,000 in bribes for his participation in a credit card scheme, resulting in \$400,000 in government losses.
- The Ebersole dog case, which focused on fraudulent procurements involving untrained bomb detection dogs used by IRS, State, Federal Reserve, and FEMA.
- The case against Jeffrey Bochesa and several others that involved \$300,000 in gratuities and a \$1.33 million fraud committed by Bochesa and his company in connection with a National Reconnaissance Office subcontract.
- The Dutta case involving more than \$800,000 in overcharging on USAID contracts.
- The Photogrammetrics case that involved more than \$500,000 of overcharges on major DOT road projects in Northern Virginia.
- Northrop Grumman paid \$60 million in connection with defective pricing on a major DoD contract in Norfolk.

DESCRIPTION OF THE INITIATIVE

Along with other offices, including the FBI, DCIS, NCIS, NRO IG, DHS IG, DOS IG, and DOT IG, we are forming the Procurement Fraud Working Group. The working group will facilitate the exchange of information among participant agencies and assist them in developing new strategies to prevent and to promote early detection of procurement fraud.⁰

Among the ideas and initiatives to be discussed by the Working Group will be:

- Improved training of special agents and auditors to assist them in conducting investigations of procurement fraud, bribery, and conflicts of interest.
- Increased collaboration between federal agents and government contractors to educate them on effective means for preventing fraud, waste and abuse.
- Better collaboration between special agents and prosecutors at early stages of procurement fraud investigations to assure successful prosecutions and civil recoveries.

- Increased education of government contracting officers, program managers and other agency personnel on issues relating to the detection and prevention of procurement fraud.
- Placement of agency investigators at major procurement offices to work with agency employees who are directly involved in the negotiation of government contracts.
- Use of computer data-mining and other programs to uncover and detect procurement fraud.
- Enhanced efforts to detect ethics violations and conflicts of interest by current and former agency officials.

The Procurement Fraud Working Group will meet periodically to facilitate exchange of information and ideas. The Group will continue to expand its membership to maximize positive impact on the procurement process. Increased communication may also lead to greater collaboration in investigative efforts and increased prosecutions.

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